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# AHED CORPORATION ANNUAL REPORT 1978



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<b>HIGHLIGHTS OF OPERATIONS</b> (in thousands of dollars except earnings per share)					
YEAR ENDED NOVEMBER 30	1978	1977	1976	1975	1974
<b>OPERATING</b>					
Gross Revenue	\$13,101	\$13,238	\$13,269	\$8,082	\$6,826
Operating Profit (before extraordinary items)	169	373	361	163	63
Net Income	169	373	340	184	22
<b>FINANCIAL POSITION</b>					
Working Capital	2,820	2,663	2,275	2,022	2,026
Total Assets	7,544	7,386	7,372	4,860	4,089
Long Term Debt	275	321	417	518	596
Shareholders Equity	2,924	2,755	2,382	2,022	1,838
Capital Expenditures	98	62	219	210	78
<b>EARNINGS PER SHARE</b>					
Before Extraordinary Items	19.8	43.8	42.4	19.7	7.6
After Extraordinary Items	19.8	43.8	39.9	22.2	2.6
Shares Outstanding (in thousands)	851.5	851.5	851.5	826.5	826.5

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## REPORT TO THE SHAREHOLDERS

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While the indications at the end of the third quarter for continued growth and profits appeared excellent, based on facts which became evident following the last quarter certain decisions had to be made that resulted in sharply reducing our profits for the year.

Over the past three years our activities in the area of marketing records and tapes via television won us a leading position in the Canadian industry. With the sharp decrease in the value of the Canadian dollar, increasing royalty costs and with substantial increased television advertising costs, it became apparent that further profitable growth in this area was not likely. As a result we decided to modify our activities in order to give us an opportunity to identify new areas where growth potential could be greater and in which our proven marketing expertise can be used for greater profitability.

Further, the lack of available funding to expand our U.S. operations to full activity led us to decide to suspend record and tape marketing in the U.S. for the next year.

As a consequence of the above factors, we decided we must assess our year-end inventories and pre-paid rights on a "change of direction" basis rather than on a "business as usual" basis. This meant considerable write-downs which reduced net profit substantially below last year.

On the other hand, Precision Record Productions, our record manufacturing division, and Mr. Music, our organ and piano retailing division, continue to make satisfactory progress.

In summary, we are aggressively pursuing other directions for the company to take and are confident the company will return to better than average growth and profits.

In the meantime, we are indebted to our shareholders for their patience and our employees for their continuing loyalty and extra effort in this period of change.

Phillip G. Anderson, President and Chairman of the Board

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**AHED CORPORATION**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS** (year ended November 30)

	1978	1977
Sales and royalty income	\$13,100,965	\$13,237,850
Cost of sales	6,762,293	6,528,664
Income before the undernoted expenses	6,338,672	6,709,186
Expenses:		
Selling, general and administrative	5,801,495	5,748,300
Interest — long-term debt	39,161	58,911
— short-term debt	93,921	84,845
Depreciation and amortization	119,641	117,494
	6,054,218	6,009,550
Income before income taxes	284,454	699,636
Income taxes — current	192,890	178,710
— deferred	(77,300)	147,600
	115,590	326,310
Net income for the year	168,864	373,326
Retained earnings, beginning of the year	1,585,571	1,212,245
Retained earnings, end of the year	1,754,435	1,585,571
Earnings per share:	19.8¢	43.8¢
(See accompanying notes)		

**AUDITORS' REPORT**

To the Shareholders of  
Ahed Corporation

We have examined the consolidated balance sheet of Ahed Corporation as at November 30, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
February 22, 1979

Resnick, Wintraub & Co.  
Chartered Accountants



**AHED CORPORATION**

(Incorporated under the laws of Ontario)  
and subsidiary companies

**CONSOLIDATED BALANCE SHEET** (as at November 30)

<b>ASSETS</b>	<b>1978</b>	<b>1977</b>
Current:		
Cash	\$78,961	\$107,482
Accounts receivable (note 6)	4,276,661	3,962,870
Current portion of long-term receivable	14,160	36,448
Inventories, at lower of cost and net realizable value	2,242,612	2,281,785
Prepaid expenses	476,201	502,907
Total current assets	7,088,595	6,891,492
Fixed, at cost (note 1(d)):		
Machinery and equipment	576,952	554,166
Office equipment	189,727	117,832
Automotive equipment	47,646	54,681
Leasehold improvements	304,094	304,094
	1,118,419	1,030,773
Less accumulated depreciation	673,202	559,415
	445,217	471,358
Other:		
Long-term receivables, less current portion	10,604	23,564
	\$7,544,416	\$7,386,414



<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1978</b>	<b>1977</b>
Current:		
Bank indebtedness (note 2)	<b>\$726,565</b>	\$1,013,363
Accounts payable	<b>3,212,965</b>	2,823,876
Income taxes payable (note 1(e))	<b>192,457</b>	182,480
Deferred income taxes (note 1(e))	<b>136,700</b>	209,000
Total current liabilities	<b>4,268,687</b>	4,228,719
Special term bank loan and equipment loan repayable in annual installments of \$121,000, less current portion included (note 2 and 3)	<b>275,493</b>	321,323
	<b>\$4,544,180</b>	\$4,550,042
Deferred income taxes (note 1(e))	<b>76,000</b>	81,000
Shareholders' equity:		
Share capital —		
Authorized:		
1,500,000 shares without par value		
Issued and outstanding:		
851,500 shares (note 6)	<b>1,169,801</b>	1,169,801
Retained earnings	<b>1,754,435</b>	1,585,571
	<b>2,924,236</b>	2,755,372
	<b>\$7,544,416</b>	\$7,386,414

On behalf of the Board: P.G. Anderson, Director — W.R. Gilliland, Director

(See accompanying notes)



**AHED CORPORATION**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION** (year ended November 30)

	1978	1977
Funds provided from:		
Operations —		
Net income for the year	\$168,864	\$373,326
Add items not involving an outlay of funds:		
Depreciation and amortization	119,641	117,494
Non-current deferred income taxes	(5,000)	10,100
Goodwill and trademarks written off	—	25,000
	283,505	525,920
Proceeds on disposal of fixed assets	4,453	1,280
Long-term debt	74,896	—
Reduction in long-term receivables	12,960	19,114
	375,814	546,314
Funds used for:		
Purchase of fixed assets	97,953	62,350
Repayment of long-term debt	120,726	95,762
	218,679	158,112
Increase in working capital	157,135	388,202
Working capital, beginning of the year	2,662,773	2,274,571
Working capital, end of the year	\$2,819,908	\$2,662,773

(See accompanying notes)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOVEMBER 30, 1978**

**1. Significant accounting policies**

**(a) Principles of consolidation —**

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

**(b) Exchange translation —**

Current assets and liabilities in foreign currency have been translated into Canadian dollars at the approximate rate of exchange at November 30, 1978. Other transactions during the year have been translated at the rates of exchange prevailing on the respective dates of the transactions.

**(c) Sales —**

The company sells records and tapes on a "guaranteed sale" basis. Under this arrangement customers are allowed to return unsold records and tapes to the company for credit. For this reason a provision has been made for the expected returns.



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(d) Depreciation and amortization —

The company depreciates fixed assets on the diminishing balance basis at the following rates:

Machinery and equipment	—	20%
Office equipment	—	20%
Automotive equipment	—	30%

Leasehold improvements are amortized on the straight-line basis over the term of the leases.

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(e) Income Taxes:

The company follows the tax allocation method of accounting. Under this method timing differences between the period when income is reported for tax purposes and the period when it is recorded in the accounts results in provisions for deferred taxes.

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2. Bank indebtedness and special term bank loan

The bank indebtedness and special term bank loan are secured by a general assignment of the accounts receivable and inventories of the company and a \$1.5 million floating charge demand debenture.

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3. Equipment loan

The company borrowed \$137,000 to acquire machinery and equipment. Under the terms of the agreements the company will be committed to pay approximately \$46,000 (including interest) per annum until 1981 and \$23,000 (including interest) in 1982.

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4. Statutory information

Renumeration —

The aggregate direct renumeration paid by the company and its subsidiaries to the directors and senior officers of the company (as defined by The Business Corporations Act of Ontario) for the year amounted to \$181,202 (\$226,000-1977)

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5. Commitments

Under lease agreements, the company is committed to annual rental payments of approximately \$265,000 until 1983 for certain manufacturing equipment, its manufacturing, warehousing and executive offices, and its "Mr. Music" stores.

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6. Employee share purchase plan

The company has established an Employee Share Purchase Plan for certain senior personnel of the corporation.

The plan provides for the advance of sums of money to the Trustee for the purchase of shares in the corporation for the benefit of eligible employees. Under the terms of the plan, a maximum of 40,000 unissued common shares of the company may be made available at the discretion of the directors of the corporation. The purchase price is to approximate the market value at the date of exercise. Alternatively, the Trustee can acquire shares in open market for the purpose of this plan.

During 1976, 25,000 treasury shares were allocated under the plan and purchased by the Trustee for an aggregate consideration of \$20,000.

In accordance with the terms of the plan this purchase was financed by an interest free loan for a maximum term of five years from the company to the Trustee who acquired the shares on behalf of the employees involved. The \$20,000 due from the Trustee is included in accounts receivable and is secured by promissory notes, executed by the employees, payable to the Trustee. These notes bear no interest and are for a maximum term of five years. In addition the Trustee is holding the shares as collateral for the indebtedness.

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7. Change of name —

During the year, the company amended its article of incorporation changing its name from Ahed Music Corporation Limited to Ahed Corporation.

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## AHED CORPORATION

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### DIRECTORS

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Phillip G. Anderson  
W.R. (Bill) Gilliland  
Walter M. Bowen, Q.C.  
D. (Sandy) Sinclair  
Jack C. Anderson  
J.F. (Hans) Jurrius, C.A.

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### OFFICERS

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Phillip G. Anderson - President and Chairman of the Board  
W.R. (Bill) Gilliland - Executive Vice-President  
Jack C. Anderson - Vice-President  
J.F. (Hans) Jurrius - Vice-President and Secretary

#### Head Office

142 Sparks Avenue, Willowdale, Ontario, Canada. M2H 2V9

(416) 499-5000

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#### Transfer Agents

Canada Permanent Trust Co, Toronto

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#### Auditors

Resnick, Wintraub & Co., Toronto

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#### Legal Counsel

Cassels, Brock, Toronto

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#### Bankers

Bank of Montreal

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#### Listing

Toronto Stock Exchange

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